

OFFICE OF FINANCE PROGRAMS
COMMUNITY DEVELOPMENT BLOCK GRANT
ECONOMIC DEVELOPMENT PROGRAM

(CDBG-ED)

ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2013

Submitted by:

Maryland Department of Business and Economic Development

As of June 30, 2013

COMMUNITY DEVELOPMENT BLOCK GRANT
ECONOMIC DEVELOPMENT PROGRAM

(CDBG-ED)

TABLE OF CONTENTS

| | |
|--|---|
| History & Program Description..... | 1 |
| Performance Since Inception of the Program Through June 30, 2013 | 1 |
| Program Highlights for Fiscal Year 2013..... | 2 |
| Projected Program Performance for Fiscal Year 2014..... | 2 |
| <i>Exhibits</i> | |
| Listing of Approved Activity 07/01/2012 – 06/30/2013..... | 3 |
| Listing of Closed (Settled) Activity 07/01/2012 – 06/30/2013..... | 4 |

**COMMUNITY DEVELOPMENT BLOCK GRANT ECONOMIC DEVELOPMENT PROGRAM
(CDBG-ED)**

History and Program Description

The US Congress created the Community Development Block Grant Program (CDBG) as part of the Housing and Community Development Act of 1974. The Act authorized the US Department of Housing and Urban Development (HUD) to manage the Program.

The CDBG Program began as a community development resource aimed at housing rehabilitation and neighborhood revitalization projects. During the 1980s, HUD promoted "decentralization" of program administration and offered States an opportunity to "take over", or manage their own CDBG programs. HUD also authorized the use of CDBG funds for economic development purposes.

Maryland established its program and started receiving annual awards of CDBG funds from HUD in 1987. The Department of Housing and Community Development (DHCD) was designated to be the primary State Agency responsible for administration of CDBG funds. The Department of Business and Economic Development (DBED) entered into a Memorandum of Understanding (MOU) for use of a portion of CDBG funds. Consequently, Maryland's CDBG program is administered jointly by DHCD and DBED. Approximately 25% of the State's annual CDBG award is allocated to DBED for use in economic development projects.

DBED's goal for use of CDBG –ED funds is "job creation". HUD has mandated that job creation resulting from the use of CDBG-ED funds must be targeted to low and moderate-income citizens in non-urban areas of the State. Funds are disbursed to local jurisdictions in the form of a conditional grant. The local jurisdiction may lend the funds to a commercial enterprise or directly use the funds for infrastructure improvements needed by businesses or other eligible projects. Funds can be used for land acquisition, site improvements and the purchase of fixed assets such as new equipment.

DBED focuses the use of funds on commercial and industrial activities, like manufacturing, distribution and commercial revitalization, while DHCD directs funds to community development activities, like housing rehabilitation for low and moderate-income communities.

Program Performance Since Inception

Program funds are used for conditional grants to eligible local governments in support of economic development projects that provide direct job creation and/or address slum and blight conditions. In some projects, CDBG funds are subsequently distributed in the form of a loan from the local government to a business. Since fiscal year 1988, DBED has provided approximately \$49 million in financing assistance to approximately 127 economic development projects in Maryland.

CDBG-ED funds that are used for loans to businesses provide a unique opportunity to assist local governments and small businesses. DBED can allow local governments to retain loan payments to help capitalize local revolving loan funds. DBED has selectively used this capability to provide local governments financing resources to assist small businesses in their communities or to help local governments participate in supporting major project initiatives. Since fiscal year 1988, DBED has authorized 11 local governments to retain approximately \$4.1 million of CDBG-ED repayments for initial capitalization of local revolving loan funds.

During fiscal years 2009 and 2010, two local governments, Allegany County and Kent County, respectively elected to discontinue operation of their Revolving Loan Fund. During fiscal year 2013, Garrett County elected to discontinue operation of its Revolving Loan Fund. DBED and DHCD worked closely with

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

each County to evaluate and transfer fund proceeds to an eligible local economic development project. The following local governments operate CDBG-ED funded revolving loan funds:

| Local Government | Amount | Fund Origination |
|-------------------|---------|--------------------|
| Aberdeen | 170,000 | March 10, 1988 |
| Havre de Grace | 392,500 | December 15, 1992 |
| Denton | 440,000 | February 11, 1990 |
| Federalsburg | 250,000 | November 12, 1997 |
| St. Mary's County | 500,000 | October 5, 1998 |
| Cecil County | 400,000 | December 5, 1997 |
| Somerset County | 400,000 | September 30, 1998 |
| Wicomico County | 250,000 | June 30, 1993 |

In addition, DBED has used CDBG-ED funds for direct assistance to two local Non-Profit Corporations that operate Revolving Loan Funds that specifically serve the needs of very small businesses known as Micro-Enterprises. Maryland Capital Enterprises (MCE) in Wicomico County and Micro-Works in Garrett County have used \$150,000 and \$100,000 respectively of CDBG-ED funds for operating expenses, loans and technical assistance to this sector of Maryland's economy.

Program Performance for Fiscal Year 2013

During fiscal year 2013, DBED accumulated approximately \$2.0 million of CDBG-ED program funds from a SFY13 fund balance, loan payments and recaptures. DBED did not have a sufficient volume of "ready to proceed" eligible economic development projects to fully use these funds. The condition of our local and national economy, and corporate strategy to delay, and in some cases, abandon development or expansion projects, are factors in the slower pace of CDBG –ED funds usage. Given these economic conditions, DBED transferred \$456,896 of economic development funds to the Community Development category at DHCD to ensure compliance with federal Timeliness Expenditure of Funds policy.

Also during fiscal year 2013, Program funds totaling \$856,000 were used to support three (3) economic development projects that will facilitate greater access to a local business district, and encourage business expansion and job creation. All three projects settled in fiscal year 2013. DBED is working with several prospective economic development projects in early stages of formation. DBED anticipates that these initiatives will continue to progress into the project implementation stage.

Projected Program Performance for Fiscal Year 2014

The allocation of CDBG-ED funds to DBED for fiscal year 2014 is estimated to be \$1,767,436 and was received in July 2013. Federal rules for the program require 100% of the annual allocation and program income to be under contract to eligible economic development projects within 15 months of receipt. The fiscal year 2014 allocation of \$1,767,436 and the accumulated Program Income balance of approximately \$1,500,000 equal total CDBG-ED funds in the amount of \$3,267,436 available to support eligible economic development projects. DBED's current pipeline for CDBG-ED includes six (6) economic development projects that may utilize 100% of this amount. DBED is actively working with local government officials and other economic development stakeholders to identify additional eligible projects. DBED's strategy for use of CDBG-ED funds will emphasize support of local government economic development initiatives that encourage commercial and industrial growth, workforce training, commercial revitalization, and development and growth of small businesses.

Approved Report

7/1/2012 Through 6/30/2013

| <i>Approved Retained</i> | <i>Client Name</i> | <i>Loan</i> | <i>Loan</i> | <i>Guarantor</i> | <i>Loan</i> | <i>County</i> | <i>Total Project</i> | <i>Trainees</i> | <i>New</i> | |
|------------------------------|------------------------|----------------|---------------------|-------------------|------------------|---------------|----------------------|---------------------|-------------|-------------|
| <i>Date</i> | | | <i>Amount</i> | <i>Percentage</i> | <i>Guarantee</i> | | <i>Costs</i> | <i>Pro / Actual</i> | <i>Jobs</i> | <i>Jobs</i> |
| <i>CDBG Cond. Grant</i> | | | | | | | | | | |
| 11/13/2012 | City of Westminster | 14300101 | \$319,000.00 | 0.0% | \$0.00 | Carroll | \$319,000.00 | N/A | 0 | 0 |
| 3/27/2013 | Princess Anne, Town of | 2090101 | \$502,000.00 | 0.0% | \$0.00 | Somerset | \$502,000.00 | N/A | 0 | 0 |
| 4/18/2013 | Snow Hill, Town Of | 14690101 | \$35,000.00 | 0.0% | \$0.00 | Worcester | \$39,000.00 | N/A | 0 | 0 |
| Totals: | | 3 Loans | \$856,000.00 | | \$0.00 | | \$860,000.00 | 0 | 0 | 0 |
| Grand Totals: | | 3 Loans | \$856,000.00 | | \$0.00 | | \$860,000.00 | 0 | 0 | 0 |

Settled Report

7/1/2012 Through 6/30/2013

| <i>Settled Retained Date</i> | <i>Client Name</i> | <i>Loan</i> | <i>Loan Amount</i> | <i>Guarantor Percentage</i> | <i>Loan Guarantee</i> | <i>County</i> | <i>Total Project Costs</i> | <i>Trainees Pro / Actual</i> | <i>New Jobs</i> | <i>Jobs</i> |
|--------------------------------------|------------------------|-------------|------------------------|---------------------------------|---------------------------|---------------|--------------------------------|----------------------------------|---------------------|-------------|
| <i>CDBG Cond. Grant</i> | | | | | | | | | | |
| 1/1/2013 | City of Westminster | 14300101 | \$319,000.00 | 0.0% | \$0.00 | Carroll | \$319,000.00 | N/A | 0 | 0 |
| 6/28/2013 | Princess Anne, Town of | 2090101 | \$502,000.00 | 0.0% | \$0.00 | Somerset | \$502,000.00 | N/A | 0 | 0 |
| 6/28/2013 | Snow Hill, Town Of | 14690101 | \$35,000.00 | 0.0% | \$0.00 | Worcester | \$39,000.00 | N/A | 0 | 0 |
| Totals: | 3 Loans | | \$856,000.00 | | \$0.00 | | \$860,000.00 | 0 | 0 | 0 |
| Grand Totals: | 3 Loans | | \$856,000.00 | | \$0.00 | | \$860,000.00 | 0 | 0 | 0 |